

1 CHAIRPERSON JAMES: With that, Mr. Coates.

2 MR. COATES: Thank you and I'm very honored to be
3 invited to address you today. And hopefully what some of what I
4 have to say will be of interest to this Commission and of some
5 help.

6 I have documentation on nearly everything I intend to
7 present today and I have it in a folder and I'll be happy to turn
8 that over whenever.

9 First, let me give you just a little bit of
10 background of my situation. I am the director for Consumer
11 Credit Counseling in Des Moines, Iowa. I co-founded that
12 organization in 1987 and I believe that puts me in a rather
13 unique situation to observe what has happened in our state, in
14 our immediate vicinity and the fact that we started out in '87
15 and I came back to Iowa where there was very little gambling
16 except the lottery. And when I left my home state in '81, there
17 wasn't even that.

18 And I recognize that there has been a slight shift in
19 some of the public sentiment psychology and as we started back in
20 '87, '88, '89 with our credit counseling; we observed that maybe
21 two to three percent of the people that we were talking to had
22 gambling as a core issue to their debt. Today we have six
23 offices throughout the state. We are far and way the state's
24 largest credit counseling service. And we conduct approximately
25 400 to 500 new counseling sessions each month through our doors.

26 Now the shift has been at least in part in the area
27 of credit and debt which I hope to talk about here. And that is
28 that now our data shows about 15 percent of our counseling

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1 involves gambling as a core issue or core reason for the debt
2 that has been taken on.

3 And, I think it's interesting to note that Iowa was
4 one of the first states to enter the gambling arena with casino
5 gambling and target, not the tourist model, but their native
6 population. So I think perhaps some of what we have witnessed
7 has been a bit different than perhaps if you looked at a state
8 like Nevada or a state like New Jersey.

9 Now, gambling also in our state involves an
10 assistance program for the people that fall out. Those that are
11 known as problem and pathological gamblers. And in September of
12 1994 my agency bid for and received the state wide gambling hot
13 line. We call it 1-800-BETSOFF in the state of Iowa. And when
14 we entered that arena we were dealing with about 40 to 50 crisis
15 calls each month. And so in the last year we've been averaging
16 close to 300 crisis calls each month. So I have observed it not
17 only from the credit standpoint but also as the administrator for
18 the last few years on the hot line.

19 Now the hot line, just so that you will know, is
20 administered by the state of Iowa but it is funded by three
21 tenths of one percent. Three tenths of one percent of all the
22 net gambling revenues in the state of Iowa go toward funding the
23 treatment which is not only for the hot line, it also funds
24 education, public awareness, and the treatment for these people.

25 Now, I want to give you a little background in
26 regards to the mood in our country in regards to the credit and
27 debit situation. Back when we first founded Consumer Credit
28 Counseling back in '87 the entire amount of credit card debt in

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1 this country amounted to about \$100 billion, that was open
2 revolving credit card debt each month.

3 Now today, 11 years later in 1998, the amount of
4 credit card debt in this country as of July of this year amounted
5 to \$543 billion. And when I talk to audiences, they fuzz out on
6 these massive numbers and so I find it helpful to bring it down
7 to personal level.

8 Now back in '87 they average person that carried
9 credit card had access to five and on the bank cards that were in
10 that were mix the average line of credit was about \$2,000.00,
11 which I thought at that time was quite a bit.

12 But, now today in 1998 the average person has a
13 credit card has access to ten and the average line on a bank card
14 in that mix is \$4,000.00. So in that 11 year span we have
15 doubled the number of cards and doubled the amount of credit
16 attached to each one of those cards.

17 And if I took a survey of average citizens and you
18 asked them do you revolve a balance, about 60 percent typically
19 will say no. The reality is that 60 percent of our population in
20 this country to revolve a balance and the balance that they
21 revolve carry a balance from month to month has risen recently in
22 a dramatic fashion where it averages over \$7,000.00 per
23 individual in credit card debt being revolved each month in this
24 country.

25 Now Iowa was the only state that I know of to
26 Commission a prevalence study based upon a time line. That time
27 line starting prior to the institution of casino gambling within
28 the state. And one of the most pertinent numbers that I got from

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1 this, time line study, was in 1989 two years prior to the
2 inception of the casinos in the state, we had a 1.7 percent
3 lifetime problem and pathology gambling rate within the state of
4 Iowa.

5 And that same exact study was Commissioned by the
6 state of Iowa six years later in 1995. In those six years it
7 took us from 1.7 percent to 5.4 percent of our state's adult
8 population being put in the category of lifetime problem or
9 pathological gamblers.

10 That's a tremendous increase in a relatively short
11 period of time on the native population and it demonstrates what
12 happens when marketing and very close accessibility happens to
13 the native population, I think.

14 Now there's some number also from Iowa that show that
15 in 1995 versus '94 the rest of the country experienced a 12
16 percent increase in bankruptcy where Iowa was up 21.

17 From 1995 to '96, even with those elevated numbers
18 the rest of the country was up 26 percent while Iowa was up 34
19 percent. And in those times Iowa had a very low rate of
20 unemployment. Most of the unemployment during that period of
21 time ran from 2½ to 3½ percent and our state's economy was far
22 stronger than the average.

23 So to say that we went through something special in
24 that farm belt during that period of time isn't fair. The
25 farmers were doing fine and our economy was very good.

26 We increased the rate per capita of gambling well
27 above any historical previous rate of bankruptcy in our state's
28 history compared to the rest of the country. We also led during

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1 those few years in the rate of increase of sub-prime, second
2 mortgage lending which I think is another factor here. Many of
3 the gamblers that we see through our offices have already
4 instituted this high interest, sub-prime loan against their
5 homes, a second mortgage in many cases to finance their gambling
6 habit.

7 One of the research projects that I was asked to be a
8 part of and was happy to take part in was one called the SMR
9 Research Report. Now I think this is interesting and it is very
10 telling because this is a report that was put out, Commissioned,
11 and paid for by the big banks in this country. And they didn't
12 want to look at gambling, they wanted to look at bankruptcy and
13 they wanted to know why bankruptcy is escalating in this country
14 at such an alarming rate.

15 But in that study, the 240 page study that SMR did,
16 they felt they had to deal with the gambling issue and I have
17 brought along that piece. Some of the most important factors
18 that I take from that is that if you live in a county in this
19 country that has one casino you have an 18 percent higher rate
20 per capita of bankruptcies in counties in this country that have
21 none. And if you live in a county that has five or more, you
22 have a 34 percent higher instance per capita rate of bankruptcy
23 than counties that have none.

24 Now the recommendations, "it is now apparent that
25 gambling is the single fastest growing driver of bankruptcy in
26 this country." And their number one recommendation to the banks
27 on this issue, "make it tougher for customers to obtain cash
28 advances at gambling casinos."

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1 Now the SMR Research report is also complimented by a
2 Des Moines register survey published back in March the 8th, 1998,
3 showing that nine of the twelve highest per capita bankruptcy
4 filing counties of the hundred in our state had gambling
5 facilities in or directly adjacent to it.

6 And there's a new study that's just been released by
7 Iowa State University in August of this year and was conducted by
8 Professor Tahera K. Hira (ph) at Iowa State University in Ames,
9 Iowa; and some of the, again I'm going to supply you with the
10 entire report, but the figures that jumped out at me were that
11 they compared gamblers to non-gamblers in Chapter 13 Bankruptcies
12 currently being administered in the state of Iowa.

13 The mean income for gamblers was \$20,340.00 per year.
14 The mean income for non-gamblers was \$30,384.00. So people that
15 identified themselves as gamblers had two-thirds of the income of
16 those than identified themselves as non-gamblers. But when you
17 compared the amount of debt, the gamblers registered a mean
18 number of \$41,342.00 in debt versus only \$34,636.00 for
19 non-gamblers. So even though the gamblers had only two-thirds of
20 the level of income, they had a significantly higher amount of
21 debt.

22 Also they discovered that 19 percent of the Chapter
23 13 Bankruptcies currently being administered had gambling, again,
24 as this core issue. These people are saying without gambling,
25 without the debt that I accumulated because of gambling, I would
26 not be in bankruptcy court. I think that is a very significant
27 and very recent study.

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1 Now one of the articles that caught my eye some time
2 ago was one that in the International Gaming and Waging Business,
3 and it to, to the industry itself it says this; it is no secret
4 in the casino industry that patrons will continue to play a game
5 until their cash runs out. What some operators have discovered,
6 however, is if a customer is provided with efficient and easy
7 ways to access cash, often a last time player will wager for
8 longer than he or she originally planned.

9 Phil Brian (ph), president and chief operating
10 officer of Boom Town, a Las Vegas based casino company is quoted
11 as saying, that if casinos did not have these types of devices,
12 players would simply leave to get cash and it is likely they
13 would not come back. In fact 40 to 60 percent of the cash now
14 wagered in a casino is not physically carried on to the premises.

15 If casinos can understand this they can increase
16 their drops substantially. Say that ATM's are in a great way to
17 provide quick and convenient access to cash. But they also
18 suffer a major drawback, a cash withdrawal limits of \$300.00 a
19 day. Casinos have found a way around this delima by utilizing
20 credit card cash advance services provided by companies like
21 COMDATA and Game Financial.

22 These cash advance terminals allow players to access
23 as much cash as they want, their funds do not exceed their line
24 availability of credit on that particular card. As I've
25 indicated, this country has greatly expanded the area of customer
26 credit in the last few years.

27 Now there is a situation that we've dealt with before but
28 it was highlighted in a story that I'm going to give to you about

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1 a man named David Davenport who came into our office this spring
2 in April. The counselor came to me afterwards and said, Tom,
3 we've had another one. We had this fellow with \$60,000.00 in
4 credit card debt and we talked about and how sad it was, but it
5 was another one of many stories.

6 We didn't hear about again until that following
7 Monday when his step-son called and said, started asking
8 questions and we found out that Mr. Davenport had driven to a
9 motel two days later on a Friday and ended his life with a pistol
10 in the motel room. Well I waited a few weeks and called his
11 family and I said, you're not the first ones that we've had
12 through here this has happened to but nobody has been willing to
13 step up and tell their story. Well they consulted and they did
14 tell their story and the article came out large, front page, Des
15 Moines Register in June of this year.

16 The thing I didn't realize when I put the story
17 together with the reporter was a letter that he had left, his
18 suicide letter. And it says, quote, "I never thought of gambling
19 prior to two to three years ago. I really can't blame anyone but
20 myself but I sincerely hope that restrictions are placed upon
21 credit card cash availability at casinos. The money is too easy
22 to access and goes in no time. My situation is now one of
23 complete despair, isolation, and constant anxiety."

24 And as the reporter said it's almost like a testimony
25 from the grave from this fellow for what I'm interested in and
26 that is, I've got a few other things but I'm going to run out of
27 time.

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1 The thing that we've been working for in the last
2 couple of years in the state of Iowa is to close the loop. The
3 state denies casinos from granting credit but it does not
4 specifically address the issue of vendors. So they have allowed
5 vendors like COMDATA to come throughout the state and issue these
6 machines out there in the casinos that allow large amounts of
7 credit card debt like David Davenport had to be accessed. And we
8 have tried nearly successfully for the last two years but been
9 told at the last minute by an army of lobbyists that has stopped
10 us from this. It's a high priority, it's high priority for me,
11 it's high priority for them. I see the fallout and I, my, one of
12 my recommendations to this Commission would be to encourage
13 states to look at restriction upon this.

14 I know I watched, one more quote, I know I watched
15 the cross fire of where Frank Fahrenkopf was debating Tom Grey
16 and he even acknowledged that something needed to be done about
17 the credit card machines in these casinos.

18 So, I'll have to stop now.

19 MR. BIBLE: Thank you, Mr. Coates. If you've not
20 already supplied your data to our staff, would you do so?

21 MR. COATES: Yes.

22 MR. BIBLE: Thank you.

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